CHESTERFIELD COUNTY

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LANE B. RAMSEY
COUNTY ADMINISTRATOR

October 28, 2005

The Honorable Members of the Board of Supervisors
County of Chesterfield, Virginia

Members of the Board:

We are pleased to submit to you the Comprehensive Annual Financial Report (CAFR) of Chesterfield County (the County) for the fiscal year ended June 30, 2005. State law requires that all local governments have all their accounts and records, including all accounts and records of their constitutional officers, audited annually as of June 30 by an independent certified public accountant and that an audited financial report is submitted on or before November 30 to the Auditor of Public Accounts of the Commonwealth of Virginia (APA). This report has been prepared by the Accounting Department in accordance with the standards of financial reporting as prescribed by the Governmental Accounting Standards Board (GASB), the Financial Accounting Standards Board (FASB), and the APA.

The CAFR was prepared with an emphasis on full disclosure of the financial activities of the County. Responsibility for both the completeness and the reliability of the contents rests with County management. To provide a reasonable basis for making these representations, management of the County has established a comprehensive internal control framework that is designed both to protect the government's assets from loss, theft, or misuse and to compile sufficient reliable information for the preparation of the County's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP). Because the cost of internal controls should not outweigh their benefits, the County's comprehensive framework of internal controls has been designed to provide reasonable rather than absolute assurance that the financial statements will be free from material misstatement. As management, we assert that, to the best of our knowledge and belief, this financial report is complete and reliable in all material respects.

KPMG LLP, a firm of licensed certified public accountants, audited the County's financial statements. The goal of the independent audit was to provide reasonable assurance that the financial statements of the County for the fiscal year ended June 30, 2005, are free of material misstatement. The independent audit involved examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. The independent auditors concluded, based upon the audit, that there was a reasonable basis for rendering an unqualified opinion that the County's financial statements for the fiscal year ended June 30, 2005, are fairly presented in conformity with GAAP. The independent auditors' report is presented as the first component of the financial section of this report.

The independent audit of the financial statements of the County was part of a broader, federally mandated "Single Audit" designed to meet the special needs of federal grantor agencies. The standards governing Single Audit engagements require the independent auditors to report not only on the fair presentation of the financial statements, but also on the audited government's internal controls and compliance with legal requirements, with special emphasis on internal controls and legal requirements involving the administration of federal awards. These reports are available in the compliance section of this report.

GAAP requires that management provide a narrative introduction, overview, and analysis to accompany the basic financial statements in the form of Management's Discussion and Analysis (MD&A). This letter of transmittal is designed to complement MD&A and should be read in conjunction with it. The County's MD&A can be found immediately following the report of the independent auditors.

Profile of the Government

The County is located in east-central Virginia, adjacent to the City of Richmond, and is a growing suburban, residential area, with concurrent commercial growth and industrial development. The County encompasses a land area of approximately 446 square miles with a population of approximately 291,000. A large portion of the land in the County, especially in the southwestern area, remains rural. The County is empowered to levy a property tax on both real and personal properties located within its boundaries.

Effective January 1, 1988, the County began operating pursuant to a County Charter approved by the citizens of the County in a referendum election and subsequently enacted by the Virginia General Assembly. The County is an independent political subdivision of the Commonwealth of Virginia with no subordinate political entities within its borders and the County is absolutely immune from annexation by adjacent localities. The governing body of the County is the Board of Supervisors (the Board) that establishes policies for the administration of the County. The Board is composed of five members, one member elected from each of five magisterial districts. A member must be a resident of the district that he/she serves. Members are elected for four-year terms. The current Board was elected on November 4, 2003. The Board appoints a chief executive officer, known as a County Administrator, who serves at the pleasure of the Board and carries out the policies established by the Board.

The County provides a full range of municipal services. Major programs include public safety, health and welfare, parks, recreation and cultural activities and community development. Additionally, the County operates an airport and water and wastewater utility systems.

The financial reporting entity includes all of the funds of the County, the primary government, as well as all of its component units. Three discretely presented component units, the School Board, the Health Center Commission and the Industrial Development Authority of the County of Chesterfield, are included in the reporting entity because of the County's financial accountability for these organizations; however, these component units are reported separately within the County's financial statements. Additional information on these legally separate organizations can be found in Note 1 to the financial statements.

The biennial budget serves as the foundation for the County's financial planning and control; however, the Board cannot adopt a two-year appropriations resolution. The biennium begins on July 1st of even-numbered years and the second year of the biennium begins on July 1st of odd-numbered years. The Board is required to hold a public hearing on the proposed budget and to adopt a final budget by each May 1$^{st.}$ In the first year of the biennium, the first year's expenditures are appropriated and the second year's expenditures are approved. In the second year of the biennium, the Board amends and formally adopts the biennium expenditures approved in the first year of the biennium. The appropriated budget is at the function level for the General Fund and at the fund level for the Comprehensive Services Fund. The County Administrator is authorized to amend appropriations by transferring any unencumbered balance or portion thereof from one classification of expenditure to another within the same department or appropriation category and may transfer up to $50,000 (amount effective for fiscal year 2006) from the unencumbered appropriated balance of one appropriation category to another appropriation category. No more than one transfer may be made for the same item causing the need for a transfer, unless the total amount to be transferred for the item does not exceed $50,000. The Board must approve most other amendments that increase the total appropriation of any function level.

Factors Affecting Economic Condition

The information presented in the financial statements is perhaps best understood when it is considered from the broader perspective of the specific environment within which the County operates.

Local economy

Economic activity in the County is closely associated with that of the Richmond metropolitan area. Because of its land area, availability of quality labor, enterprise zones, moderate tax structure and favorable business climate, the County has become a desirable location in recent years for new businesses locating in the metropolitan region. Commercial and industrial activity, therefore, has kept pace with the once rapid population growth that the County experienced. Although manufacturing and wholesale and retail trade establishments are the major employers in the County, there is considerable diversification of employment opportunities. The County's unemployment rate for 2004 averaged 3.2%, relatively unchanged from the previous year. However, the County faired better than the 2004 unemployment rates of the Richmond/Petersburg metropolitan statistical area (MSA) of 3.9% and the Commonwealth of Virginia (the Commonwealth) of 3.7%. Based on employment data for fiscal years 1993 through 2003, employment in the County has increased at an average annual rate of 1.8% since 1998, compared with 0.8% in the Richmond/Petersburg MSA and 1.1% in the Commonwealth.

Wage and Salary Employment[1]
By Place of Work

	1993 [2]	1998	% Change	2003	% Change
Chesterfield County	82,558	100,753	22.0%	110,110	9.3%
Richmond/Petersburg MSA	466,583	524,273	12.4%	544,352	3.8%
Commonwealth of Virginia	2,849,872	3,222,384	13.1%	3,398,789	5.5%

(1) Nonagricultural employment

(2) Chesterfield County figure is estimated due to VEC disclosure suppression of data for agricultural sector

Source: Virginia Employment Commission, Labor Market Information Services

Chesterfield recognizes the importance of expanding the business tax base to provide revenues for needed services and has made a commitment to promoting economic development. New economic activity for fiscal year 2005 included both commercial and industrial projects. The Department of Economic Development assisted both existing company expansions and new company locations. New and expanding businesses invested more than $81.0 million and created 2,409 new jobs.

Merit Medical is investing $5.0 million to open a manufacturing facility in Chesterfield and creating 200 new jobs. Fifteen employees will transfer from the company's previous facility, which could not be expanded to meet the company's growing production requirements. The new Chesterfield County facility will assemble and distribute procedure kits for the medical industry worldwide. Virginia successfully competed against Utah for the project.

Pearson Government Solutions will invest $5.6 million to open a government services call center in Chesterfield County, creating up to 800 jobs at their busiest times. The facility will provide support for the 1-800 Medicare Helpline. Pearson will hire between 220 and 250 people in the short-term, adding others during the course of the year during peak times.

Timmons Group announced its plans to relocate its corporate headquarters to the County during the first quarter of 2005. The company's new headquarters will consist of 43,000 square feet of office space to house its environmental, infrastructure, residential site development and survey practices alongside its corporate functions.

The County is still considered to have the best available location for the next semiconductor chip manufacturing company at Meadowville Technology Park. In addition to this area, the creation of the Virginia Bio Technology Research Park at Meadowville will allow the County and the research park to jointly market prospects for either site and elevate biosciences in the Richmond area. Located just south of the Interstate 295 Varina-Enon Bridge and 15 miles from the downtown research park, the satellite location, which will be part of the Meadowville Technology Park, will have the capacity for approximately 2 million square feet of combined office, laboratory and manufacturing space.

The majority of space in the southwestern quadrant of the metropolitan Richmond area market including Chesterfield County is primarily office buildings. The quadrant's office vacancy rate decreased from 13.8% as of June 2004 to 12.0% as of June 2005. While the overall office market showed solid growth in the last 2 years, most of that growth was owner-built construction and speculative office condos for sale. Route 288 from Powhite Parkway to I-64 opened to traffic November 19, 2004. The completion of this northern section completes the western beltway around Richmond, connecting I-95 to I-64. This new route significantly shortens the commuting time across the James River and is expected to increase economic development potential for the northwestern area of the County. Over the next several years, with effective planning and the support of local property owners and citizens, this area is expected to become one of the region's premier office and light industrial employment centers.

Retail sales continued to improve in the Richmond-Petersburg region during the calendar year 2004. For the calendar year 2004, taxable retail sales increased by 4.6% to $3.1 billion. Taxable retail sales in the County historically have increased at rates greater than the increase in both the Richmond/Petersburg MSA and the Commonwealth. The average annual rate of change in the County over the period 1994-2003 was 5.5% compared to 4.4% and 4.9% for the Richmond/Petersburg MSA and the Commonwealth, respectively.

Taxable Retail Sales
($ in 000's)

Year	Chesterfield County	% Change	Richmond/ Petersburg MSA	% Change	Commonwealth of Virginia	% Change
1994	$ 1,852,798	7.0%	$ 8,059,954	6.1%	$ 49,728,091	6.5%
1995	1,958,733	5.7	8,484,548	5.3	52,087,011	4.7
1996	2,051,750	4.7	8,895,969	4.8	53,923,260	3.5
1997	2,197,966	7.1	9,443,757	6.2	57,047,801	5.8
1998	2,326,486	5.8	9,948,948	5.3	60,113,811	5.4
1999	2,433,377	4.6	10,228,443	2.8	64,068,575	6.6
2000	2,587,315	6.3	10,980,132	7.3	68,661,581	7.2
2001	2,623,909	1.4	10,783,699	-1.8	68,725,289	.1
2002	2,713,035	3.4	11,002,014	2.0	70,645,313	2.8
2003	2,946,806	8.6	11,652,494	5.9	74,973,562	6.1

Source: Weldon Cooper Center for Public Service/University of Virginia

Long-term financial planning

The County prepares and approves a biennial financial plan which provides a view of future resource allocations by presenting balanced revenue and expenditure projections for the three years succeeding each biennium. These multi-year projections permit policy makers and staff to foresee future needs and to plan for managed growth of services. Additionally, the multi-year budgeting process allows the County to rationally plan for multi-year acquisitions and program financing, thereby allowing for maximized cash flow and investment. Development of this plan is guided by the strategic goals approved by the Board. Key Board objectives and other immediate priorities also help shape the biennial financial plan which is centered on two broad themes: the County's overall strategic purpose and the allocation of available resources to best reach the County's vision.

The County annually prepares a Capital Improvement Program (CIP). This CIP serves as a planning tool for the efficient, effective, and equitable distribution of public improvements throughout the County. The CIP represents a balance between finite resources and an ever-increasing number of competing County priorities. This balance was achieved using the priorities and objectives established by the Board of Supervisors consistent with the County's Strategic Plan.

The FY2006-2011 CIP is presented as an update to the 7-year plan that was adopted in April 2004. In November 2004, the citizens of Chesterfield County overwhelmingly supported the 2004 bond referendum. As part of the referendum, voters were supportive of issuing bonds for road improvements, allowing the County the ability to take steps to make up for inadequate state road funding. The CIP now reflects the addition of road projects totaling $40.0 million over the 6-year period. The FY2006-2011 CIP totals $674.7 million and is comprised of County improvements of $248.8 million, school improvements of $303.6 million and Utilities Department improvements of $122.3 million. The projects included in this program will enable the County to address critical capital facility demands yet adhere to its established financial management policies.

This CIP represents a continued conservative approach in its reliance on long-term financing for general County improvement projects. Further, in keeping with the Board of Supervisors' financial policy regarding funding a portion of capital improvements with current revenues, this CIP exceeds the targeted current revenue funding levels for both County and School projects. The County has a goal of funding 20% of the general County projects and 10% of the School projects with current revenues. This CIP proposes current revenue funding levels (including cash proffers) of 39.4% for the County projects and 27.3% for School projects over the 6-year planning period.

In response to the fiscal challenges inherent to the economic environment, the County adopts a conservative approach toward financial and debt management. The portion of the County's operating budget dedicated for repayment of debt is set by policy at 10% of general government expenditures. The FY2006-2011 CIP proposes an even lower percentage with the intention of maintaining a debt ratio closer to 8.5% of general government expenditures. The County's policy of funding a large portion of capital expenditures "as we go" by consistently reserving 5% of operating expenditures for capital investments further enhances debt management.

In addition, each year the County dedicates 7.5% of total general fund expenditures to fund balance. This is a tenet of the Board's commitment to prudent financial planning because it eliminates the need for short-term borrowing, ensures that current obligations including debt payments can be met, and provides a cushion against the potential shock of any unexpected change in revenues. This practice, along with our conservative debt management policies, allows the County to maintain its triple AAA bond rating received from all 3 major rating agencies.

There will continue to be challenges in the years ahead. Real estate property tax revenues continue to be the staple of our funding sources. Dependence on strong growth in this revenue long-term must be cautiously guarded and state and federal revenues continue to make up a smaller percentage of our overall revenue. On the expense side, we expect continuing increases in the cost of health care and Virginia Retirement System contributions. New facilities will also impact future years' budgets as debt service and operating expenses are expected to increase in order to pay for the new facilities approved in the referendum.

Major initiatives

On September 29, 2004, the County received the Award for Continued Excellence (ACE) from the United States Senate Productivity and Quality Award for Virginia (SPQA). The County is a past recipient of the SPQA Senate Medallion of Excellence, as well as an earlier ACE. The ACE is presented to past medallion recipients that demonstrate exemplary trends in performance excellence and who are considered to be role models and benchmark organizations.

In October 2004, the County was successful in purchasing Cloverleaf Mall for a major redevelopment initiative along the eastern Midlothian Turnpike corridor. The County plans to redevelop all or a portion of the Mall Property into a mixed use facility, which may include residential, office, retail and other commercial space. This redevelopment initiative is in the public interest of the County and will benefit the Commonwealth and its citizens by facilitating the public purpose of economic development in the County.

Awards and Acknowledgements

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to Chesterfield County for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2004. This was the twenty-fourth consecutive year that the County has achieved this prestigious award. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized comprehensive annual financial report. This report must satisfy both accounting principles generally accepted in the United States of America and applicable legal requirements.

A Certificate of Achievement is valid for a period of 1 year only. We believe our current CAFR continues to meet the Certificate of Achievement Program's requirements and we are submitting it to GFOA to determine its eligibility for another certificate.

The Budget and Management Department received an award for Distinguished Budget Presentation from GFOA for its biennial budget for the fiscal year beginning July 1, 2004 and ending June 30, 2006. To achieve this award, a government must publish a budget document that meets program criteria as a policy document, as an operations guide, as a communications medium and as a financial plan. Chesterfield County is 1of 4 localities in Virginia to have earned the award for more than 20 consecutive years.

The National Institute of Governmental Purchasing (NIGP) of the United States, Canada, Ireland, and England (NIGP) established an agency accreditation program that recognizes excellence in public purchasing, by establishing a body of standards that should be in place for a quality purchasing operation. In October 2002, the NIGP reaccredited the Chesterfield County Purchasing Department with the Outstanding Agency Accreditation Achievement Award for demonstrating excellence in public purchasing. When certification was first obtained in 1999, Chesterfield County's Purchasing Department was the eighth agency overall and the first locality or state agency in Virginia to receive this award. Accreditation certification is valid for 3 years at which time the agency will be required to reaccredit.

We would like to express our appreciation to the staff of the Accounting Department who contributed to the timely preparation of this report. We would also like to thank the members of the Board of Supervisors for your interest and support in planning and conducting the financial operations of the County in a responsible and progressive manner.

Respectfully submitted,

Lane B. Ramsey

Lane B. Ramsey
County Administrator

Mary Lou Lyle

Mary Lou Lyle
Director of Accounting